U.S. House of Representatives
COMMITTEE ON THE BUDGET
Washington, DC 20515

November 24, 1999

Dear Democratic Colleague:

Last Thursday, the House concluded its business for the year by approving both H.R. 3194, the consolidated appropriations bill, and H.R. 1180, a tax extenders bill. The first bill passed the House by a vote of 296-135 and the second bill was approved by a vote of 418-2. Both measures have been sent to the President who is expected to sign them into law next week.

The House Budget Committee's Democratic staff has prepared the attached brief summary of the highlights of both bills. In the near future, we will be sending you a much more comprehensive analysis of all the major budget bills that have been enacted this year.

The consolidated appropriations bill contains a number of key Democratic victories for which we and the White House should take credit. For example, the measure improves public schools by providing a second installment of funds to hire 100,000 teachers and reduce class size. It also makes our streets safer by continuing the highly successful "cops on the beat" program with an installment of funds to hire up to 50,000 more police. The bill also provides an extra $16 billion in Medicare funds over five years to assist health care providers such as hospitals and nursing homes. Finally, the bill helps protect our environment by providing additional resources to preserve public land and protect water resources.

Since the bill was the product of compromise between Republicans and Democrats, it also contains some disappointments. For example, Republicans included provisions, such as the across-the-board spending cuts and international family planning language, that the President and most Democrats opposed.

It is regrettable but not surprising that Congress failed to complete its budget work until more than six weeks of the new fiscal year had elapsed. And while there are additions to the omnibus bill that Democrats can proudly take credit for, much more is left undone. Congress failed to enact the patients bill of rights, a prescription drug package for Medicare beneficiaries, and a campaign finance reform bill. Instead, Congress wasted much of the year pushing a fiscally irresponsible tax cut costing more than $800 billion. The revenues lost by that bill would have wiped out the entire on-budget surplus, denied Social Security and Medicare the resources needed to extend their solvency, and denied resources for other national priorities, such as improving education and strengthening law enforcement.

I hope that the attached information is useful. If you have any questions, please feel free to call me or have your staff call the House Budget Committee's Democratic staff at x67200.

Sincerely,

John Spratt

John M. Spratt, Jr.
Ranking Democratic Member

HOUSE BUDGET COMMITTEE
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HIGHLIGHTS OF THE FINAL BUDGET AGREEMENT FOR FISCAL YEAR 2000

John M. Spratt, Jr.
Ranking Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and therefore may not necessarily reflect the views of all the members of the Caucus.

General Notes:

- All years are fiscal years unless otherwise noted.

- Unless otherwise noted, funding levels for discretionary programs are stated in budget authority, and funding levels for entitlements and other direct spending programs represent outlays.

- Throughout the document, the Congressional Budget Office is abbreviated to CBO.

- All figures are CBO cost estimates as of publication. Final cost estimates may very.

- Numbers may not add due to rounding.

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Overview of Conference Agreements on Consolidated Appropriations and Tax Extenders

Consolidated Appropriations

The conference agreement on the Consolidated Appropriations bill for 2000 includes the five remaining regular appropriations acts. Four of the five regular bills were incorporated by reference into the conference report on the District of Columbia's appropriations for 2000. Instead of filing regular conference reports on these measures, four separate bills reflecting the final negotiations were introduced in the House on November 17, 1999. It is these bills that are enacted by reference in the conference agreement on Consolidated Appropriations. The four appropriation bills are:

1) Commerce-Justice-State-Judiciary Appropriations for 2000;

2) Foreign Operations and Related Agencies Appropriations for 2000;

3) Interior and Related Agencies Appropriations for 2000; and

4) Labor-HHS-Education Appropriations for 2000.

The conference agreement incorporates five other measures by reference. Each of these bills was introduced as a separate bill in the House on November 17, 1999. The bills incorporated by reference are:

1) the miscellaneous appropriations bill, which includes many of the offsets required by the agreement, including the government-wide, across-the-board cut of 0.38 percent in discretionary programs;

2) revisions to the Balanced Budget Act of 1997 relating to Medicare, Medicaid, and the Children's Health Insurance Program (CHIP);

3) the reauthorization of the State Department;

4) the federal Milk Marketing Orders program; and

5) the Intellectual Property and Communications Omnibus Reform Act of 1999.

Tax Extenders

A separate conference agreement (H.R. 1180) extends various expiring tax provisions for one to five years. These include the research and experimentation tax credit, relief for middle-class families from the alternative minimum tax, the work opportunity and welfare-to-work tax credits, preferences for employer-provided undergraduate education, qualified zone academy bonds for public school construction and repair, and credits for alternative electrical energy production.

Budget Effects of the Conference Agreement

Before Congress completed the Consolidated Appropriations bill, CBO estimated that budgetary legislation passed by Congress through October 28th would produce a 2000 unified budget surplus of $130 billion but a $17 billion deficit excluding Social Security, i.e. an "on-budget" deficit of $17 billion. CBO has not yet completed its estimate of the agreement, but when CBO releases new figures next week, they likely will differ from its previous figures by no more than a few billion in either direction.

Compared with CBO's October 28th estimate, the agreement *increases* the on-budget deficit for 2000 by —

- reducing the across-the-board cut and adding flexibility;
- diminishing the delay in obligations for the National Institutes of Health;
- adding funds for other Administration priorities; and

increasing Medicare, Medicare, and CHIPs payments.

But the agreement *decreases* the on-budget deficit for 2000 by —

- delaying Foreign Military Financing payments to Israel;
- delaying some federal employee pay dates; and
- accelerating payment to the Treasury of Federal Reserve profits.

Major Offsets in Consolidated Appropriations Conference Agreement

- ***"Across-the-Board" Cuts* —** The conference agreement on the Consolidated Appropriations bill cuts all discretionary funding for 2000 by 0.38 percent (38 hundredths of one percent). This cut covers all funding for 2000 regardless of when it was enacted, as well as the obligation limitations that govern transportation trust funds.

  Each agency must apply the cut to its budget. However, within its budget, the agency does not need to apply the cut across each program (except in Defense). Instead, the agency has discretion to decide which program(s) to cut, as long as: (A) the amount the agency cuts equals 0.38 percent of its total funding; and (B) no single program, project, or activity is cut by more than 15.0 percent.

  The Department of Defense cannot cut funding for the Military Personnel accounts. In addition, it must cut each remaining defense budget account by exactly the same percentage. Thus, a cut of 0.51 percent will apply to each defense account except Military Personnel, so that the total defense cut equals 0.38 percent of defense funding. One result of this requirement is that funding for defense operations and maintenance, which is a major component of military readiness, will end up about $700 million below the level requested by President Clinton.

  The across-the-board cut originally sent to the President was 0.97 percent of all discretionary funding, did not grant discretion to the Administration, and was estimated by CBO to reduce outlays in 2000 by $3.5 billion.

  A CBO estimate of the savings from the 0.38 percent funding cut is not yet available, but Budget Committee staff believe the cut will reduce 2000 outlays by approximately $1 billion. Staff assume the Administration will frequently choose to cut funding that was unlikely to be spent in 2000 in any case, thereby reducing 2000 outlays by less than would a rigid, across-the-board funding cut.

- ***Delay in Military and Civilian Pay Day* —** The agreement delays pay dates for all military and federal civilian employees who are scheduled to be paid on September 29 or September 30, 2000, to October 1, 2000. This delay of one or two days will shift approximately $3.2 billion in spending into the next fiscal year.

- ***Federal Reserve Transfers* —** The Federal Reserve System will transfer $3.8 billion to the Treasury in 2000 in addition to its usual remittances. The Federal Reserve will recover this amount by reducing its remittances to the Treasury in 2001 by $3.8 billion.

- ***Delay in Disbursing Assistance to Israel* —** The agreement changes the timing of Foreign Military Financing (FMF) assistance to Israel. As a result, $550 million in FMF outlays will accrue in 2001 rather than 2000. This change does not reduce the amount of FMF assistance that Israel receives.

- ***"Bankrupt Spectrum" Offset* —** Despite much publicity, the agreement does *not* contain the so-called bankrupt spectrum offset. This potential offset involved a now-bankrupt company that had previously promised to buy the rights to cellular telephone airwaves. The press had widely speculated that the agreement would direct the return of these airwaves so that the government could resell this portion of the electromagnetic spectrum to offset some of the increases in the agreement.

Highlights of Major Changes in Consolidated Appropriations Agreement compared with Vetoed Appropriations Bills

The funding levels cited for the various programs are those set forth in the conference agreement on the Consolidated Appropriations bill. These levels may or may not be subject to the government-wide, across-the-board cut of 0.38 percent required by the agreement because of the flexibility given to the executive branch in applying the cut. See *Offsets* for details.

Education

The conference agreement on the Consolidated Appropriations bill increases funding for the Department of Education by $669 million over the level in the vetoed appropriations bill. $12.5 billion of the $38.0 billion for education is 2001 funding and will not be available until October 1, 2000. Major changes from the vetoed bill include the following:

- ***Teachers*** **—** The agreement increases funding by $100 million from the vetoed bill to provide $1.3 billion to continue last year's initiative to hire 100,000 teachers over seven years to reduce the average size of classes in the early grades. The agreement also gives states more flexibility to use up to 25 percent of their funds to improve teacher quality by testing and training current teachers. In addition, the agreement provides $37 million more than the vetoed bill for two other teacher training programs.

- ***After-School Programs*** **—** The agreement contains $454 million for 21st Century Learning Centers, an increase of $154 million from the level in vetoed bill.

- ***Higher Education*** **—** The agreement increases assistance for higher education by $67 million above the level in the vetoed bill, including an additional $20 million for GEAR-UP. It makes no change in funding for student financial aid.

- ***Bank Subsidies for Student Loans*** **—** See the discussion in *Entitlement Legislation.*

Law Enforcement

- ***Community Oriented Policing Services (COPS)*** **—** The conference agreement on the Consolidated Appropriations bill provides $595 million for the President's COPS program, a $270 million increase over the vetoed version of the Commerce-Justice-State appropriations bill. This additional funding goes toward meeting the goal of hiring 50,000 new community police officers.

Environment

- ***Lands Legacy Initiative* —** The conference agreement on the Consolidated Appropriations bill provides roughly $490 million for federal and state acquisition of scenic or environmentally sensitive land, a primary component of the President's Lands Legacy Initiative. This level of funding is slightly lower than the President's original request. The House-passed Interior appropriations bill provided $205 million for these programs, and the original conference agreement for that bill (which never reached the President's desk) provided $280 million.

- ***Superfund Exemption for Recyclers* —** The agreement includes a provision exempting certain recycling businesses from liability for the cost of cleaning up the nation's worst hazardous waste sites. Similar provisions are included in Superfund reform bills still pending in the House and Senate. Supporters of those bills objected that including this exemption for recyclers in this conference agreement would weaken support for more comprehensive reform of the federal hazardous waste clean-up program.

- ***Byrd Mining Provision Excluded* —** The agreement does not include a mining provision that Senator Robert Byrd had sought to add. The provision would have overturned a recent court ruling that will prohibit mining companies from removing the tops of mountains and placing the debris in nearby river valleys. The provision would have allowed this practice to continue for two years or until the completion of an ongoing environmental study of the mining practice. The Clinton Administration and environmental groups opposed including this provision in the conference agreement.

Health

- ***National Institutes of Health (NIH)* —** The agreement delays the release of $3.0 billion of the $17.9 billion it provides for NIH until September 29, 2000. Unlike the delay of $7.5 billion in the vetoed Labor-HHS-Education appropriations bill, this funding delay will not disrupt research, according to NIH.

- ***Ryan White AIDS Programs* —** For 2000, the agreement provides $1.6 billion, about $50 million more than the vetoed bill.

Disaster Relief

- ***Federal Emergency Management Agency (FEMA)*** — The conference agreement on the Consolidated Appropriations bill provides $215 million for FEMA to buy homes flooded by Hurricane Floyd or other storms. See the discussion of funding for agricultural emergencies in *Entitlement Legislation.*

Title XX (Social Services Block Grant)

- ***Title XX Social Services Block Grant* —** The agreement provides $1.8 billion for Title XX, $75 million more than the vetoed Labor-HHS-Education appropriations bill. It does not delay the obligation of any Title XX funds, unlike the vetoed bill, which delayed $425 million until September 29, 2000. Finally, the agreement does not change the amount of TANF funds that states may transfer to Title XX. The vetoed bill lowered the limit on transfers from 10 percent to 4.25 percent.

International Relations

The conference agreement on the Consolidated Appropriations bill increases funding for international aid by $2.6 billion over the level in the vetoed Foreign Operations appropriations bill. Major changes include the following:

- ***Wye River Agreement* —** Consistent with the Administration's request, the agreement includes $1.8 billion in emergency funding to implement the Wye River Memorandum, which is an agreement between Israel and the Palestinians that followed the Oslo Peace Accord. This funding was not included in the vetoed Foreign Operations bill.

- ***United Nation (U.N.) Arrears* —** The agreement includes $351 million to pay U.S. debt owed to the U.N. that was not included in the vetoed Commerce-Justice-State appropriations bill. Coupled with funding previously appropriated, $926 million is now available to repay U.S. debt owed to the U.N.

- ***Restrictions on Family Planning (Mexico City Language)* —** As part of the compromise on the U.N. arrears issue, the agreement includes $385 million for international family planning assistance. However, this funding is subject to the restrictions of the so-called Mexico City language that prohibits U.S. funding to any private or multilateral organization that uses its own funds to lobby foreign governments on the issue of abortion. The President can waive the Mexico City language, but a waiver triggers a transfer of $12.5 million from family planning assistance to child survival programs. The Mexico City provision was strongly opposed by most Congressional Democrats.

- ***Debt Relief for Impoverished Nations* —** The agreement provides $110 million ($90 million more than the vetoed bill) to reduce bilateral debts that the world's poorest nations owe to the U.S. The agreement also authorizes U.S. support for an International Monetary Fund program to revalue its gold reserves to provide multilateral debt relief to impoverished nations.

District of Columbia Appropriations

The conference agreement on the Consolidated Appropriations bill increases funding for the District of Columbia by $7.0 million over the level in the vetoed D.C. appropriations bill. Major changes contained in the final conference agreement include the following:

- ***Needle Exchange Funding* —** The agreement contains language allowing organizations that run needle exchange programs to receive federal or local funds for other activities, but bars the use of these government funds for the needle exchange program and requires these agencies to account separately for the needle-exchange funds.

- ***Legalization of Marijuana for Medical Purposes* —** The agreement prohibits the use of any city funds to legalize or reduce penalties for the possession or use of marijuana even if used for medical reasons.

Highlights of Major Changes in Entitlement Legislation

- ***Medicare* —** The conference agreement on the Consolidated Appropriations bill incorporates legislation (H.R. 3426) by reference that alters, refines, or repeals various Medicare payment reductions required by the Balanced Budget Act of 1997 (BBA). The incorporated bill is similar to one (H.R. 3075) passed by the House. The Medicare package includes increased payments for hospitals, skilled nursing facilities, home health agencies, managed care organizations, and other health care providers whose federal reimbursements were reduced by the BBA by more than had perhaps been intended in 1997.

  The agreement also includes legislative language allowing the Health Care Financing Administration to implement the prospective payment system (PPS) for hospital outpatient departments in a budget-neutral manner. Without this language, Medicare payments for hospital outpatient departments would decrease an additional 5.7 percent under PPS. The statutory language clarifies Congressional intent regarding this provision of the BBA.

  The Medicare package costs $1.2 billion in 2000 and $16.0 billion over five years. No offsets are included in this or any other legislation to cover the cost of this increased spending. See the discussion of *Ticket to Work* for other Medicare changes.

- ***Medicaid Payments to Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs)* —** The Medicare package includes a provision that slows the phase-out of the cost-based system of Medicaid reimbursement for services provided by FQHCs and RHCs. Under the new phase-out schedule, the reimbursement rates are higher in most years than those in the Balanced Budget Act of 1997. The legislation also requires a study of the effect of reducing or modifying the payments to such providers. This provision costs $100 million over five years. See the discussion of *Ticket to Work* for other Medicaid changes.

- ***Agricultural Emergencies* —** The agreement includes $576 million in new emergency funding for agricultural disasters. Of that total, it provides $219 million for crop and livestock loss assistance, $179 million for farm loans due to economic or natural disasters, $80 million for the U.S. Department of Agriculture's (USDA) Emergency Watershed program, and $26 million in loans and grants for the Rural Housing Service damaged by disasters. See the discussion of FEMA funding in *Disaster Relief*.

- ***Dairy Pricing Policies* —** The agreement directs the USDA to implement its "Option 1-A" milk pricing structure rather than the Option 1-B it had planned to use. Option 1-A makes fewer changes from the current price structure, which generally requires processors to pay more for milk as their distance from Wisconsin increases. The House previously passed similar legislation, H.R. 1402, that mandated implementation of Option 1-A despite the strong opposition of upper midwestern Members and the Administration. The conference agreement also extends the Northeast Interstate Dairy Compact for two years beyond its scheduled expiration on October 1, 1999. Under the Compact, dairy processors pay farmers in the six New England states a minimum price above the federal minimum price. Congress had not voted previously on extending the Compact.

- ***Ticket to Work and Work Incentives Improvement Act* —** The Ticket to Work and Work Incentives Improvement Act alters cash and health care benefits for persons with disabilities and aims to encourage these individuals to work. The major provisions of this bill: (1) establish a new Ticket to Work and Self-Sufficiency Program that changes the way vocational rehabilitation services are provided to persons receiving benefits under the Disability Insurance (DI) and Supplemental Security Income (SSI) programs; and (2) expand the availability of health care coverage for working persons with disabilities by providing a state option to allow certain workers with disabilities to buy into the Medicaid program and to extend the length of Medicare coverage for certain workers with disabilities.

- ***Welfare-to-Work and Child Support Amendments*** — The conference agreement on the Consolidated Appropriations bill incorporates amendments to the welfare-to-work and child support programs that were included in the House-passed Fathers Count Act (H.R. 3073). These amendments: (1) expand the population eligible for welfare-to-work funds; (2) allow funds to provide up to six months of vocational education or job training; (3) reduce the welfare-to-work program's successful performance bonuses to states from $100 million to $50 million; and (4) establish an alternative penalty for states failing to meet the child support program requirements for state disbursement units.

- ***Bank Subsidies for Student Loans*** — The conference agreement on the Ticket to Work legislation, H.R. 1180, changes the interest rate that the government guarantees to lenders and secondary markets in the guaranteed student loan program (the Federal Family Education Loan program). The formula will change from the rate on 91-day Treasury bills plus 2.8 percent to the rate on 3-month commercial paper plus 2.34 percent for all loans made from January 2000 through June 2003. The federal government will pay the difference between the loan rate that the student pays, which is unchanged from the formulas set by the Higher Education Amendments of 1998, and the new guaranteed rate described above. CBO estimates that this provision will save $20 million from 2001 through 2003. The Administration opposed this provision because it faces considerable financial risk if the difference between commercial paper and Treasury bill rates grows. See the discussion of discretionary education funding in *Education*.

Revenues

Extension of Expiring Tax Provisions, H.R. 1180

The conference agreement on H.R. 1180 reinstates several expiring tax provisions and adds tax preferences to the code. The agreement also includes provisions to partially offset the cost. Together, these tax changes cost $15.8 billion over five years and $18.4 billion over ten years. The amount of the offsets is $2.6 billion over five years and $2.9 billion over ten years. The agreement has virtually no cost in 2000.

- ***Research and Experimentation Tax Credit*** **—** The agreement expands the R&E credit and extends it to June 30, 2004. These provisions account for over half of the total cost of H.R. 1180.

- ***Nonrefundable Tax Credits and the Alternative Minimum Tax*** **—** The agreement extends, until December 31, 2001, relief from the AMT for middle-class taxpayers otherwise eligible for nonrefundable tax credits such as the child tax credit.

- ***Work Opportunity and Welfare-to-Work Credits*** **—** These credits, which provide assistance to both low-income employees and their employers, are extended until December 31, 2001.

- ***Qualified Zone Academy Bonds*** **—** The agreement authorizes the issue of up to $400 million of qualified zone academy bonds in each of the calendar years 2000 and 2001 for construction and repair of public schools.

- ***Extension of Other Provisions*** **—** The agreement also extends, until December 31, 2001, tax preferences for employer-supported undergraduate education, environmental remediation of so-called "brownfields," and electricity produced from wind and closed-loop biomass. The last provision is expanded to include energy produced from chicken waste.

Revenue Offsets

The agreement includes several provisions that raise revenues or shift the timing of revenues. These provisions by themselves raise $2.1 billion in 2000, $2.6 billion over five years, and $2.9 billion over ten years. These revenue offsets are largely non-controversial. The two largest items are:

- ***Repeal of Installment Method for Most Accrual Basis Taxpayers*** **—** The agreement prohibits most accrual basis taxpayers from using the installment method for tax payments on sale of property that would otherwise be reported using an accrual method. This provision raises revenues by $1.9 billion over five years and $2.1 billion over ten years.

- ***Estimated Safe Harbor for Individual Taxes* —** Taxpayers with incomes above $150,000 will pay higher quarterly estimated taxes for two years. They will base their payments on 108.6 percent of prior-year taxes in 2000 and on 110 percent in 2001, before dropping back to 100 percent in subsequent years. This provision shifts the timing of revenues but has no net impact over five or ten years.

Other Major Legislation

- ***Satellite Television Bill Included* —** The conference agreement on the Consolidated Appropriations bill includes provisions meant to improve the ability of satellite television service to compete with cable service. The provisions largely mirror those in the conference report on H.R. 1554, which the House adopted overwhelmingly. However, the agreement drops two controversial provisions of that bill. One would have authorized federal loan guarantees of $1.3 billion for satellite companies transmitting local programming to rural subscribers. The other provision that was dropped would have prevented Internet service providers from obtaining the licenses necessary to transmit broadcast programming.

- ***State Department Authorization* —** The agreement includes authorization of the operations of the State Department. Key provisions include establishing a new bureau for verification and enforcement of arms control treaties and commitments, prohibiting the transfer of nuclear reactors to North Korea, limiting the training of Royal Ulster Constabulary personnel until the President certifies that the training enhances the peace process in Ireland, and placing conditions on when the $921 million in U.N. arrears may be released. See *International Relations* for further discussion of U.N. arrears.